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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20541

B-197798
CED 0-156

March 5, 1980

The Honorable William H. Harsha
Ranking Minority Member, Committee
on Public Works and Transportation
House of Representatives

Dear Mr. Harsha:

This is to advise you of our concerns over certain requirements provided for in the proposed Airport and Airway System Development Act (Senate bill 1648) and to request your support in any actions you or the Committee may take to amend the Airport and Airway Development Act of 1970.

INDEPENDENT AUDIT OF GRANTS

Subsection 20(c) of the Senate bill would continue the requirements now provided for in subsection 26(c) of the Airport and Airway Development Act of 1970 (49 U.S.C. 1726(c)) which requires (1) grant recipients to file with the Comptroller General copies of any independent audit reports relating to the use of grant proceeds, and (2) the Comptroller General to report to Congress on the contents of these audit reports.

Our experience to date with subsection 26(c) of the Airport and Airway Development Act leads us to believe that this subsection should be repealed and therefore we are opposed to subsection 20(c) of the Senate bill. We have yet to receive any independent audit reports on the use of grant proceeds. However, this is not surprising as we are not aware of any specific requirements that require grant recipients to obtain audits of the nature referred to in subsection 26(c) of the act. In addition, the Federal Aviation Administration (FAA) has advised us that neither its records nor its audit efforts have disclosed that grant recipients have arranged for independent audits of grant proceeds. Grant recipients really have no need for independent audits of this nature as FAA or its designated contractors audit the disposition of grant proceeds.

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REPORTING ON THE AVAILABILITY OF
FUNDS FROM NON-FEDERAL SOURCES

Subsection 20(e)(1) of the Senate bill would require grant recipients at commercial service airports located in air traffic hubs to document to the Comptroller General that adequate funding for airport development projects was not available from sources other than Federal assistance. This subsection would empower the Comptroller General to prescribe the manner and form of such documentation, but as a minimum, this documentation must contain a statement of assets, liabilities, capital and surplus or deficit; a statement of surplus or deficit analysis; and a statement of sources and application of funds. Also each year, the Comptroller General would be required to provide a copy of such documentation to the Congress along with a report containing any comments, information, or recommendations on the operations and financial condition of grant recipients. Subsection 20(e)(2) would require the Comptroller General to develop a standard accounting system for grant recipients within 180 days of the bill's enactment to ensure the compatibility of the documentation required by subsection 20(e)(1). These provisions were apparently added to the bill to aid the Congress in determining whether additional airports, similar to those identified in subsection 23(a) and (b), should be defederalized--that is made ineligible for Federal airport development grants--when the proposed act expires on September 30, 1985.

Subsection 20(e)(1) and (2) if enacted would have a substantial impact on grant recipients and our Office. First, it appears that a large number of airports would be required to provide documentation. For example, there are about 550 air carrier airports, excluding those to be defederalized, and over 130 commuter service airports. Many of them would be eligible for grants each year under the distribution formulas provided for in subsection 8(b) of the bill because of the number of passengers enplaned at these airports and therefore subject each year to the documentation requirements that would be imposed by subsection 20(e)(1). The repetitive nature of this documentation over the 5-year life of the proposed act alone could be considered excessive/redundant and an unnecessary burden to grant recipients.

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We believe that many of the grant recipients will be able to meet the minimum documentation requirements set forth in subsection 20(e)(1) without much difficulty. Most grant recipients are under the jurisdiction of a municipal (State, county or local) government and therefore they generally prepare statements on their airport operations compatible to the minimum documentation requirements to satisfy the governing jurisdiction's needs.

Regarding the establishment of accounting standards to meet these minimum documentation requirements, we understand that the American Institute of Certified Public Accountants (AICPA) is currently developing for airports detailed reporting requirements for assets, liabilities and fund balances; operations; and changes in financial position. A pronouncement from the AICPA is due to be issued in the near future. Until this pronouncement is issued and the details of the reporting requirements known, our Office would prefer not to get involved in the development of standards in order to avoid needless duplication. Also in the past, this Office has not developed reporting requirements (accounting standards) for general purpose financial statements for organizations in the private sector. This responsibility has been the province of the Financial Accounting Standards Board, the AICPA, the National Council of Governmental Accounting, or other bodies.

Besides the minimum documentation requirements, we believe additional information will be needed to document that adequate funding was not available from other sources. This information would include, but would not necessarily be limited to, the following: borrowing authority of the grant recipient, including any limits, and the status of its current borrowings; the recipient's authority and efforts to obtain funds from the local government responsible for the airport; and extensive and detailed information not available from the financial statements to evaluate whether the airport was operated economically and efficiently to maximize airport revenues and minimize costs. Certainly these additional documentation requirements will be time consuming and costly to grant recipients.

Substantial additional staff resources would be needed by our Office to carry out the requirements of subsection 20(e)(1) considering the number of grant recipients that could be involved and the amount of documentation

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Although FAA could be charged with specifying what documentation should be required above the minimums specified in subsection 20(e)(1), an FAA study to identify additional airports for defederalization could be a more effective and efficient means to accomplish the intent of subsection 20(e)(1) and (2). If such a study were undertaken, we would of course be available to review FAA's study efforts.

STUDIES ON DEFEDERALIZED AIRPORTS

Section 26 of the Senate bill would require the Secretary of Transportation and the Comptroller General to conduct separate studies to determine whether airports made ineligible for Federal assistance under subsections 23(a) or 23(b) of the bill could through renegotiation of rates (landing fees) with air carriers or other means make up for the lost Federal assistance. These studies also would consider the advisability of repealing section 1113 of the Federal Aviation Act of 1958 (49 U.S.C. 1513) to permit such airports to impose a tax, fee, or head charge.

The requirement for separate studies by both the Secretary and the Comptroller General is a duplication of effort and does not seem to be the best use of Federal resources. Further, concurrent studies by this Office and the Secretary of Transportation would result in constant competition in obtaining needed information and records.

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This competition would have an adverse impact on those required to provide needed information and records and make it difficult to complete the studies within the 9-month time period provided by the bill. Because of the duplication and its adverse impacts, we believe we could better assist the Congress by monitoring the scope, methodology, and implementation of the Secretary's study. As you are aware, we are always willing to work closely with the Congress by responding to specific requests.

The studies provided in section 26 are intended to provide a basis for seeking legislative relief should the studies show that any defederalized airport was having difficulty making up the lost Federal assistance. We believe an alternative approach exists to address this potential problem. For example, the Secretary of Transportation could be provided with standby authority to either grant defederalized airports authority to impose a tax, fee, or head charge or reinstate an airport's eligibility for Federal assistance should the Secretary find that a defederalized airport was unable to replace the Federal funds. This approach would not only eliminate the need for the studies proposed in the Senate bill, as each airport would be considered on a case by case basis, but it would also eliminate the need for the Congress to enact legislation later to provide needed relief. It also would be more consistent with our past recommendation that Congress establish priorities and use them to distribute Federal airport development grants to implement the National Airport System Plan, considering among other things the financial resources of airports. (See our report "Developing a National Airport System: Additional Congressional Guidance Needed," CED-79-17, Apr. 17, 1979.)

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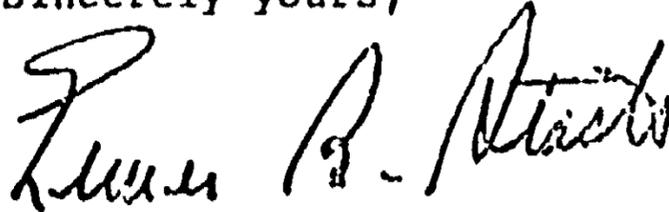
We are confident you will find our concerns over the above requirements to be reasonable and trust that you will support us in any actions you or the Committee may take.

We are sending similar letters to the Chairman of the full committee and the Chairman and the Ranking Minority Member of the Subcommittee on Aviation. Also we are sending copies of this letter to the Chairman and the

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Ranking Minority Member of the Senate Committee on Commerce,
Science and Transportation; the Secretary of Transportation;
and the Administrator, Federal Aviation Administration.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "James A. Atchafalua".

Comptroller General
of the United States



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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March 5, 1980

The Honorable Glenn M. Anderson
Chairman, Subcommittee on Aviation
Committee on Public Works and
Transportation
House of Representatives

Do not mix available to public reading

Dear Mr. Chairman:

This is to advise you of our concerns over certain requirements provided for in the proposed Airport and Airway System Development Act (Senate bill 1648) and to request your support in any actions you or the Subcommittee may take to amend the Airport and Airway Development Act of 1970.

INDEPENDENT AUDIT OF GRANTS

Subsection 20(c) of the Senate bill would continue the requirements now provided for in subsection 26(c) of the Airport and Airway Development Act of 1970 (49 U.S.C. 1726(c)) which requires (1) grant recipients to file with the Comptroller General copies of any independent audit reports relating to the use of grant proceeds, and (2) the Comptroller General to report to Congress on the contents of these audit reports.

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The studies provided in section 26 are intended to provide a basis for seeking legislative relief should the studies show any defederalized airport was having difficulty making up the lost Federal assistance. We believe an alternative approach exists to address this potential problem. For example, the Secretary of Transportation could be provided with standby authority to either grant defederalized airports authority to impose a tax, fee, or head charge or reinstate an airport's eligibility for Federal assistance should the Secretary find that a defederalized airport was unable to replace the Federal funds. This approach would not only eliminate the need for the studies proposed in the Senate bill, as each airport would be considered on a case by case basis, but it would also eliminate the need for the Congress to enact legislation later to provide needed relief. It also would be more consistent with our past recommendation that Congress establish priorities and use them to distribute Federal airport development grants to implement the National Airport System Plan, considering among other things the financial resources of airports. (See our report "Developing a National Airport System: Additional Congressional Guidance Needed," CED-79-17, Apr. 17, 1979.)

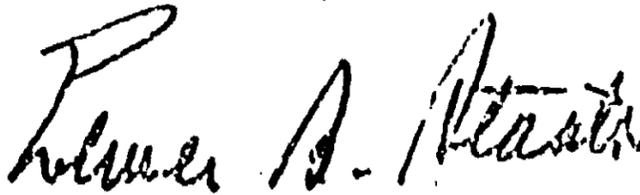
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We are sending a similar letter to the Ranking Minority Member of your Subcommittee. Also we are sending copies of this letter to the Chairman and the Ranking Minority

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Member of the Senate Committee on Commerce, Science and
Transportation; the Secretary of Transportation; and the
Administrator, Federal Aviation Administration.

Sincerely yours,



Comptroller General
of the United States



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20519

March 5, 1980

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Do not make available to public reading room

The Honorable M. Gene Snyder
Ranking Minority Member, Subcommittee
On Aviation
Committee on Public Works and
Transportation
House of Representatives

Dear Mr. Snyder:

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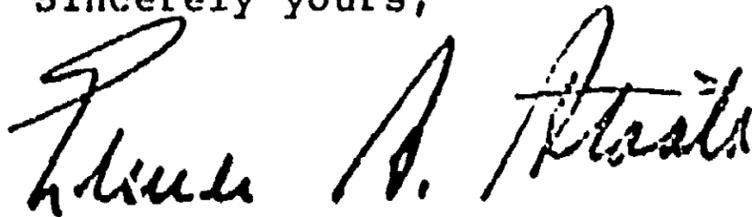
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Commerce, Science and Transportation; the Secretary of
Transportation; and the Administrator, Federal Aviation
Administration.

Sincerely yours,

A handwritten signature in cursive script, appearing to read "James A. Stewart".

Comptroller General
of the United States

A small, illegible handwritten mark or signature in the bottom right corner of the page.



COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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March 5, 1980

Do not make available to public reading room

The Honorable Harold T. Johnson
Chairman, Committee on Public Works
and Transportation
House of Representatives

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We believe that many of the grant recipients will be able to meet the minimum documentation requirements set forth in subsection 20(e)(1) without much difficulty. Most grant recipients are under the jurisdiction of a municipal (State, county or local) government and therefore they generally prepare statements on their airport operations compatible to the minimum documentation requirements to satisfy the governing jurisdiction's needs.

Regarding the establishment of accounting standards to meet these minimum documentation requirements, we understand that the American Institute of Certified Public Accountants (AICPA) is currently developing for airports detailed reporting requirements for assets, liabilities and fund balances; operations; and changes in financial position. A pronouncement from the AICPA is due to be issued in the near future. Until this pronouncement is issued and the details of the reporting requirements known, our Office would prefer not to get involved in the development of standards in order to avoid needless duplication. Also in the past, this Office has not developed reporting requirements (accounting standards) for general purpose financial statements for organizations in the private sector. This responsibility has been the province of the Financial Accounting Standards Board, the AICPA, the National Council of Governmental Accounting, or other bodies.

Besides the minimum documentation requirements, we believe additional information will be needed to document that adequate funding was not available from other sources. This information would include, but would not necessarily be limited to, the following: borrowing authority of the grant recipient, including any limits, and the status of its current borrowings; the recipient's authority and efforts to obtain funds from the local government responsible for the airport; and extensive and detailed information not available from the financial statements to evaluate whether the airport was operated economically and efficiently to maximize airport revenues and minimize costs. Certainly these additional documentation requirements will be time consuming and costly to grant recipients.

Substantial additional staff resources would be needed by our Office to carry out the requirements of subsection 20(e)(1) considering the number of grant recipients that could be involved and the amount of documentation

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required. Existing resources could not be reallocated without leaving important review areas uncovered, thus impairing our ability to effectively serve the Congress.

In the past, when specific information needs have existed beyond that available from general purpose financial statements, usually the Federal grantor agency and not our Office would delineate what special purpose reports or documentation was needed from grant recipients. In this way, we could maintain our role as an independent audit agency and review as needed (1) the adequacy and accuracy of any information contained in special reports submitted by grant recipients or (2) audit reports prepared by others on the grant recipient's operations. Further this type of role is consistent with the size of, and resources available to, this Office.

Although FAA could be charged with specifying what documentation should be required above the minimums specified in subsection 20(e)(1), an FAA study to identify additional airports for defederalization could be a more effective and efficient means to accomplish the intent of subsection 20(e)(1) and (2). If such a study were undertaken, we would of course be available to review FAA's study efforts.

STUDIES ON DEFEDERALIZED AIRPORTS

Section 26 of the Senate bill would require the Secretary of Transportation and the Comptroller General to conduct separate studies to determine whether airports made ineligible for Federal assistance under subsections 23(a) or 23(b) of the bill could through renegotiation of rates (landing fees) with air carriers or other means make up for the lost Federal assistance. These studies also would consider the advisability of repealing section 1113 of the Federal Aviation Act of 1958 (49 U.S.C. 1513) to permit such airports to impose a tax, fee, or head charge.

The requirement for separate studies by both the Secretary and the Comptroller General is a duplication of effort and does not seem to be the best use of Federal resources. Further, concurrent studies by this Office and the Secretary of Transportation would result in constant competition in obtaining needed information and records.

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This competition would have an adverse impact on those required to provide needed information and records and make it difficult to complete the studies within the 9-month time period provided by the bill. Because of the duplication and its adverse impacts, we believe we could better assist the Congress by monitoring the scope, methodology, and implementation of the Secretary's study. As you are aware, we are always willing to work closely with the Congress by responding to specific requests.

The studies provided in section 26 are intended to provide a basis for seeking legislative relief should the studies show that any defederalized airport was having difficulty making up the lost Federal assistance. We believe an alternative approach exists to address this potential problem. For example, the Secretary of Transportation could be provided with standby authority to either grant defederalized airports authority to impose a tax, fee, or head charge or reinstate an airport's eligibility for Federal assistance should the Secretary find that a defederalized airport was unable to replace the Federal funds. This approach would not only eliminate the need for the studies proposed in the Senate bill, as each airport would be considered on a case by case basis, but it would also eliminate the need for the Congress to enact legislation later to provide needed relief. It also would be more consistent with our past recommendation that Congress establish priorities and use them to distribute Federal airport development grants to implement the National Airport System Plan, considering among other things the financial resources of airports. (See our report "Developing a National Airport System: Additional Congressional Guidance Needed," CED-79-17, Apr. 17, 1979.)

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We are confident you will find our concerns over the above requirements to be reasonable and trust that you will support us in any actions you or the Committee may take.

We are sending similar letters to the Chairman of the Subcommittee on Aviation and to the ranking minority members of the full committee and the Aviation Subcommittee.

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Also we are sending copies of this letter to the Chairman and the Ranking Minority Member of the Senate Committee on Commerce, Science and Transportation; the Secretary of Transportation; and the Administrator, Federal Aviation Administration.

Sincerely yours,



Comptroller General
of the United States